COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER AUTHORIZING THE ISSUANCE OF SECURITIES AND THE ASSUMPTION OF OBLIGATIONS	)	CASE NO. 91-284

O R D E R

On August 13, 1991, Louisville Gas and Electric Company ("LG&E") filed an application requesting approval to issue and sell up to $50 million of Cumulative Preferred Stock, without par value and approval of certain accounting treatment for the expenses associated with the proposed transactions. The net proceeds would be used to redeem and refund up to $50 million of LG&E's currently outstanding Cumulative Preferred Stock, without par value, $9.54 Series and $8.72 Series in order to reduce LG&E's embedded cost of preferred stock.

LG&E states that the $9.54 Series and $8.72 Series Preferred Stock can be redeemed at prices of $104.77 and $101.00 per share, respectively. LG&E anticipates that the new preferred stock will be issued in one or more series as auction rate preferred stock or fixed-rate preferred stock. Auction rate preferred stock is similar to ordinary fixed-rate preferred stock with the exception being that the dividend rate on auction preferred stock is reset periodically. The dividend rate on most auction rate stock is typically reset every 49 days and is normally 80 percent of the

90-day AA Commercial Paper rate. Initially, dividends on any LG&E auction rate preferred stock would be reset and paid quarterly in accordance with LG&E's Articles of Incorporation. However, LG&E states it may seek the necessary revisions to permit the payment of dividends on other than a quarterly basis. As of August 31, 1991, according to LG&E, the dividend rate on auction rate preferred stock was 4-1/2 percent. Based on its net present value analysis of refunding with 5 percent auction rate preferred stock, LG&E calculated an annual savings of $1.9 million.

The Commission, having considered the application and all matters of record and being otherwise sufficiently advised, finds that the issuance and sale of the above securities by LG&E are for lawful objects within its corporate purposes, are necessary and appropriate for and consistent with the proper performance of its service to the public, and are reasonably necessary and appropriate for such purposes and should, therefore, be approved.

LG&E has requested authorization to record the redemption premiums for the outstanding Preferred Stock and expenses associated with the issuance and sale of the New Preferred Stock as a deferred asset. This deferred asset would be recorded in Account No. 186 - Miscellaneous Deferred Debits. LG&E stated that these expenses were being incurred solely to create the savings it expects to realize from the refinancing of its preferred stock. LG&E believes that it is appropriate to recover these expenses over a reasonable period of time. LG&E noted that in Case No.

9886[1] the Commission stated that the recovery of redemption premiums and issuance expenses should be considered in the context of a general rate proceeding. LG&E anticipates presenting this issue in its next rate case and has requested this deferred asset accounting treatment.

The Commission has reviewed the accounting treatment prescribed in the Uniform System of Accounts ("USoA") for the proposed preferred stock transactions. The redemption premiums represent expenses paid in connection with the reacquisition of the outstanding Preferred Stock. The USoA requires this expense be debited or credited, as appropriate, to Account No. 210 - Gain on Resale or Cancellation of Reacquired Capital Stock. Debits which exceed the balance in Account No. 210 are to be charged to Account 439 - Adjustments to Retained Earnings. Concerning the expenses associated with the issuance and sale of the New Preferred Stock, the USoA requires these expenses be recorded in Account No. 214 - Capital Stock Expense. The balance of unamortized premiums and issuance costs related to the outstanding Preferred Stock are to be transferred or written off to Account No. 210 or Account No. 439 as appropriate. All of these accounts are related to the equity section of the balance sheet. The USoA states that Account No. 186 shall include all debits not elsewhere provided for and unusual or extraordinary expenses.

---

1 Case No. 9886, Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations, Order issued May 18, 1987.

In support of its request to deviate from the accounting treatment prescribed in the USoA, LG&E has indicated only that it would seek the recovery of the redemption premiums and issuance costs related to the New Preferred Stock in its next rate case, in accordance with the Commission's ruling in Case No. 9886. In Case No. 9886, the Commission required that the redemption premiums and issuance expenses relating to those preferred stock transactions be recorded in accordance with the USoA and that the Commission would entertain a request for rate-making treatment of those expenses in LG&E's general rate proceedings.[2] No adequate reasons are offered to support a deviation from the USoA-prescribed accounting treatment. The Commission will not approve the request to record the redemption premiums and issuance expenses related to the proposed preferred stock transactions as a deferred asset in Account No. 186. LG&E should record these transactions in accordance with the USoA. This decision will not preclude LG&E from requesting rate-making treatment for these expenses in its next general rate proceeding.

IT IS THEREFORE ORDERED that:

1. LG&E be and it hereby is authorized to issue, sell and deliver up to $50 million in Cumulative Preferred Stock without par value, in either an underwritten public offering, through negotiated sale or competitive bidding, or in a private placement transaction utilizing the proper documentation.

---

2 Id., page 3.

2. LG&E shall agree only to such terms and prices which will result in a positive net present value savings and which are consistent with said parameters as set out in its application. Dividends on the new preferred stock shall be payable quarterly unless and until LG&E amends its Restated Articles of Incorporation to allow otherwise.

3. The proceeds from the authorized transactions shall be used only for the lawful purposes as set out in the application.

4. LG&E shall, within 30 days after the issuance of the securities, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the dividend rate(s), the purchasers, and all fees and expenses including underwriting discounts, commissions or other compensation involved in the issuance and distribution, and a statement of the net present value savings.

5. The request to record any expenses associated with the issuance and sale of the New Preferred Stock and the redemption premiums paid in connection with the refinancing of the existing Preferred Stock as a deferred asset in Account No. 186 is denied.

6. LG&E shall record the preferred stock transactions in accordance with the USoA.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 11th day of October, 1991.

PUBLIC SERVICE COMMISSION

Chairman

Robert M. Davis

Vice Chairman

Commissioner

ATTEST:

Executive Director